

Message Text

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ACTION EB-08

INFO OCT-01 ARA-06 EUR-12 IO-13 ISO-00 AGRE-00 CEA-01

CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05

L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05 SS-15

STR-04 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01

AF-08 EA-07 NEA-10 /130 W

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FM AMEMBASSY SANTO DOMINGO

TO SECSTATE WASHDC PRIORITY 232

INFO USMISSION GENEVA PRIORITY

AMEMBASSY LONDON PRIORITY

C O N F I D E N T I A L SANTO DOMINGO 1646

E.O. 11652: GDS

TAGS: EAGR, ETRD, DR

SUBJ: SUGAR: SOME CONSIDERATIONS IN FORMULATING US POLICY

1. THE EMBASSY SUBMITS THE FOLLOWING CONSIDERATIONS FOR THE FORMULATION OF FUTURE US SUGAR POLICY, WHEHTER IT CONSISTS OF MEASURES LOOKING TO A VIABLE INTERNATIONAL SUGAR AGREEMENT (ISA) OR MEASURES WITHOUT AN ISA. UNLIKE OTHER IMPORTANT INTERNATIONAL

L AGRICULTURAL COMMODITIES SUCH AS COFFEE, COCOA, OR WHEAT, THE FORMULATION OF SUGAR POLICY IS COMPLICATED BY THE FACT THAT THE US IS NEITHER OVERWHELMINGLY A PRODUCER NOR CONSUMER BUT PRODUCES ROUGHLY HALF ITS NEEDS AND IMPORTS THE REST.

2. SINCE WE ARE NOT RPT NOT IN A POSITION TO JUDGE US DOMESTIC INTERESTS IN SUGAR, THIS MESSAGE IS CONFINED TO THOSE FACTORS WHICH COULD AFFECT US INTERESTS IN THE DOMINICAN REPUBLIC, ONE OF OUR MAJOR SUPPLIERS.

3. VARIOUS OVERSEAS SOURCES OF SUGAR SUPPLY ARE NOW TIED DOWN BY DIFFERENT INDUSTRIAL COUNTRIES, SUCH AS THE

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COMMONWEALTH ARRANGEMENTS WITH GREAT BRITIAN, TIES OF FORMER COLONIES WITH FRANCE, CUBA'S ARRANGEMENT WITH THE SOVIET UNION, OR SOUTHEAST ASIA'S DEALS WITH JAPAN. UNTIL RECENTLY WE HAD A LEGAL ARRANGEMENT WITH THE PHILIPPINES WHICH NO LONGER EXISTS, AND WE HAD A DE FACTO ARRANGEMENT WITH THE DOMINICAN REPUBLIC DURING 40 YEARS OF THE US SUGAR LEGISLATION (1934-74). SOME

FO THE LARGER PRODUCERS IN LATIN AMERICAN SUCH AS BRAZIL AND MEXICO ARE NOT DEPENDENT UPON SUGAR EXPORTS AND HAVE SUCH ACCELERATING ECONOMIES AND EXPLODING POPULATIONS THAT THEY CONSUME AN INCREASINGLY LARGER PERCENTAGE OF THE SUGAR THEY PRODUCE. THE DOMINICAN REPUBLIC, HOWEVER, IS HIGHLY DEPENDENT UPON SUGAR EXPORTS AND HAS ALWAYS BEEN A LARGE AND RELIABLE SUPPLIER, GEOGRAPHICALLY CLOSE TO THE UNITED STATES. IN RECENT YEARS THE DOMINICAN REPUBLIC HAS BEEN EITHER THE NUMBER-ONE SUPPLIER OR THE NUMBER-TWO SUPPLIER (AFTER THE PHILIPPINES) OF SUGAR IMPORTS INTO THE US. IT SHOULD BE NOTED THAT APPROXIMATELY A THIRD OF THE SUGAR PRODUCED FOR, AND SUPPLIED TO, THE US MARKET FROM THE DOMINICAN REPUBLIC IS PRODUCED BY A WHOLLY-OWNED SUBSIDIARY OF A US COMPANY, GULF & WESTERN.

4. IN ADDITION, THERE ARE OTHER VERY LARGE US INVESTMENTS HERE (THE EXPOSURES OF BOTH EXIMBANK AND OPIC IN THE DOMINICAN REPUBLIC ARE AMONG OUR HIGHEST IN THE HEMISPHERE), WITH A REPLACEMENT VALUE OF MORE THAN HALF A BILLION DOLLARS. THIS IS ALSO THE LARGEST MARKET FOR US GOODS AND SERVICES IN CENTRAL AMERICA AND THE CARIBBEAN, AMOUNTING ALSO TO APPROXIMATELY HALF A BILLION DOLLARS. BESIDES SUGAR, THE DOMINICAN REPUBLIC IS AN IMPORTANT SOURCE FOR THE US OF MINERALS (FERRONICKEL, BAUXITE, GOLD, POTENTIAL FOR PETROLEUM) AND AGRICULTURAL PRODUCTS (MEAT, COFFEE, COCOA, TOBACCO), AND IT IS INCREASINGLY A SOURCE OF SUPPLY OF MEAT AND FRESH FRUITS AND VEGETABLES FOR PUERTO RICO.

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5. THE USG HAS INVESTED A GREAT DEAL OF TREASURE AND POLITICAL CAPITAL IN THE DOMINICAN REPUBLIC. FOLLOWING THE INTERVENTION AND WITHDRAWAL OF SOME 25,000 AMERICAN TROOPS HERE IN 1965-66, THE DOMINICAN REPUBLIC BECAME THE RECIPIENT OF ALMSOT HALF A BILLION DOLLARS IN FOREIGN AID, BILATERAL AND MULTILATERAL. OUR EFFORTS HAVE PAID OFF HANDSOMELY DURING THE INTERVENING YEARS WITH THE DOMINICAN REPUBLIC FOR FIVE YEARS (1969-73) HAVING THE HIGHEST AVERAGE REAL ECONOMIC GROWTH RATE IN LATIN AMERICA. BUT THE STABILITY AND LEVEL OF SUGAR PRICES DURING THIS PPERIOD HAVE BEEN THE PRINCIPAL ECONOMIC FACTORS IN THE DOMINICAN REPUBLIC'S RELATIVE PROSPERITY.

6. WHILE SUGAR IS NOT RPT NOT A CRITICAL ISSUE FOR MOST COUNTRIES, PRODUCERS OR CONSUMERS, IT IS VIRTUALLY SO FOR THE DOMINICAN REPUBLIC. ALTHOUGH THE VALUE OF DOMINICAN EXPORTS CLIMBED 38 PERCENT BETWEEN 1969 AND 1975, SUGAR STILL MAINTAINED ITS RELATIVE POSITION AS

THE PRINCIPAL EARNER OF THE COUNTRY'S FOREIGN EXCHANGE. SUGAR ACCOUNTS FOR APPROXIMATELY HALF OF THE COUNTRY'S ANNUAL FOREIGN EXCHANGE EARNINGS, WITHOUT WHICH IT CANNOT REMAIN A HALF-BILLION DOLLAR MARKET FOR US GOODS AND SERVICES, WITHOUT WHICH THE US INVESTORS HERE (95 PERCENT OF THE FOREIGN INVESTMENT IS US) CANNOT REMIT PROFITS, AND WITHOUT WHICH THE DOMINICAN REPUBLIC CANNOT MEET THE OBLIGATIONS COVERED BY THE EXIMBANK AND VARIOUS US COMMERCIAL BANKS. (OPIC COVERAGE WOULD ALSO BE JEOPARDIZED.) SUGAR ALSO ACCOUNTS FOR ALMOST HALF OF THE DOMINICAN REPUBLIC'S INCOME AND INTERNAL REVENUES. SUGAR AND ITS BY-PRODUCTS CONTRIBUTE MORE THAN 20 PERCENT TO THE ANNUAL GROSS NATIONAL PRODUCT.

7. BECAUSE OF THE CRITICAL NATURE OF SUGAR TO THE DOMINICAN ECONOMY AND GIVEN THE 40YEAR HISTORY OF THE DOMINICAN REPUBLIC HAVING ITS OWN SUGAR QUOTA FOR THE CONFIDENTIAL

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US MARKET, REACTION HERE WOULD BE SHARPLY ADVERSE SHOULD US SUGAR POLICY RESULT IN THE DOMREP LOSING THE SECURITY OF AN ASSURED SHARE OF THE US MARKET. AS THE DEPARTMENT IS AWARE, THE DOMINICANS HAVE ALREADY REACTED QUITE NEGATIVELY TO, FIRST, THE DISAPPEARANCE OF US SUGAR LEGISLATION AND THEN TO THE TRIPLING OF US TARIFFS ON SUGAR IMPORTS.

8. GIVEN THE IMPORTANCE OF SUGAR TO THIS ECONOMY, FUTURE ACTIONS IN WASHINGTON, LONDON, OR GENEVA WHICH MAY ADVERSELY AFFECT THE DOMINICAN ECONOMY FURTHER WILL VERY LIKELY BECOME AN ISSUE IN THE PRESIDENTIAL ELECTION NEXT YEAR.

9. FOR THE ABOVE STATED REASONS, THE EMBASSY BELIEVES THAT A VARIETY OF IMPORTANT US INTERESTS IN THE DOMINICAN REPUBLIC WOULD BE BEST SERVED BY A US SUGAR POLICY WHICH WOULD LEAD DOMINICANS TO BELIEVE THAT THEY HAD A GOOD COMPETITIVE CHANCE TO CONTINUE AS A MAJOR SUPPLIER TO THE US SUGAR MARKET AT PRICES THAT PROMISED A REASONABLE PERCENTAGE OF PROFIT.
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Disposition Date: 22 May 2009
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